

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 369 - SB 368

February 18, 2017

SUMMARY OF BILL: Exempts contractors or subcontractors from the state and local sales and use tax on purchases of tangible personal property if such property is used for local education agency construction.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue –\$7,346,200

Decrease Local Revenue –\$2,997,800

Decrease Local Expenditures –\$10,344,000

Assumptions:

- The Department of Education's 2014-15 Annual Statistics Report shows a total of \$272,210,840 in expenditures on building construction and improvements.
- The exact amount of expenditures on tangible personal property used in construction is unknown. However, it is assumed that approximately 40 percent of such expenditures, or \$108,884,336, is for materials used in construction. This number is assumed to remain constant in subsequent years.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in state revenue is estimated to be \$7,346,219 $[(\$108,884,336 \times 7.0\%) - (\$108,884,336 \times 7.0\% \times 3.617\%)]$.
- The recurring decrease in local revenue is estimated to be \$2,997,792 $[(\$108,884,336 \times 2.5\%) + (\$108,884,336 \times 7.0\% \times 3.617\%)]$.
- It is assumed that all tax savings for the contractors or subcontractors will be passed on local education agencies in the form of reduced construction contract amounts. The recurring decrease in local expenditures is estimated to be \$10,344,011 $(\$7,346,219 + \$2,997,792)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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